The Audit Committee further concluded that our former Chief Financial Officers and Controllers should have been more involved in understanding whether stock option grants were being properly accounted for, and either knew the proper accounting rules or should have taken steps to become aware of the proper accounting rules for stock option grants. At the time of these practices, it was the reasonable practice of our former Chief Financial Officers and Controllers to rely on senior executives of the Company to create accurate records of the stock option approvals and grants. Our former CEO participated in the approval of misdated stock option grants. He knew or should have been aware of the fact that date selection practices were occurring and that the approval memoranda he signed were not properly reflecting the actual approval dates. However, the Audit Committee also concluded that it was reasonable for the former CEO to believe that the Senior Vice President, Administration was handling the Company's stock option grants in accordance with the appropriate legal and accounting rules for stock option grants and understood the Company's actual practices.

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Concurrent with the review by the Audit Committee, Rambus' management, under the oversight of the Audit Committee, completed an internal review in order to prepare the restated consolidated financial statements which included evaluations of previous accounting and led to adjustments for: (a) stock option grants for which the Audit Committee determined that the actual grant date for accounting purposes was different from the stated grant date for new hire grants to employees, annual and other grants to employees, and any grants to officers; (b) grants made to individuals who had extensions of option termination dates and, in some cases, extensions of vesting periods pursuant to separation agreements under which the individuals did not perform any significant duties during the separation period but were still listed as employees; (c) payroll tax withholding liabilities for certain repriced stock grants that no longer qualify for Incentive Stock Option ("ISO") tax treatment; and (d) other miscellaneous adjustments for modifications and errors, including adjustments for grants to non-employees providing consulting services and adjustments for continued vesting after an individual converted from an employee to a consultant role.

*Summary of Accounting Adjustments by Category*

These restated consolidated financial statements include adjustments that are primarily related to the stock option matters as well as adjustments that are related to other matters resulting from Rambus' internal review and the preparation of these restated consolidated financial statements.

The primary components of the restatement of Rambus' historical consolidated financial statements related to stock-based compensation are as follows:

- New Hire Grants to Employees Rambus determined that during the period from February 1999 through October 2003, the individuals responsible for stock option grants to newly hired non-executive employees had a regular practice of selecting an exercise price equal to the lowest price of the quarter between the employee's start date and the end of the quarter for such grants. On certain occasions, individual employees were given a formal employment start date which preceded the date on which they actually began working for the Company. The result of this practice was that certain employees received a new hire grant at a grant price that was lower than the price of the stock on the employee's actual start date.

  There were three new hire grants to non-executive employees between October 2003 and December 2004, for which there were administrative errors made by Rambus' human resources department.

  There were no material measurement date differences relating to grants to non-executive new hires in the fiscal years 2005 and 2006.

- Annual and Other Grants to Employees Rambus determined that between September 1998 and October 2003, the Stock Option Committee granted approximately 13.0 million stock options to non-executive employees for which the appropriate measurement dates differed from the recorded grant dates. The Stock Option Committee during this time period consisted of the Company's CEO, Geoff Tate, as its sole member. The majority of the measurement date differences during this time period were caused by the creation of incorrect documentation concerning the date on which the stock options were approved. The human resources department usually

created Stock Option Committee memoranda reflecting stock option grants which purported to issue the grants on certain dates which differed from the actual dates on which the approvals were obtained. In October 2003 the Stock Option Committee was dissolved and this practice ceased.

In late 2003 and 2004 there were grants to non-executive employees for which the price was set on the same date that the Compensation Committee meeting had met and discussed a pool of stock options. However, the individual allocations of the stock option pool had not been completed by management until after the date of those meetings and, consequently, Rambus recorded a retroactively selected measurement date for those grants.

There were no material measurement date differences relating to annual or other grants to non-executives employees in the fiscal years 2005 and 2006.

- Grants to Officers Rambus determined that, during each of the years between 1997 and 2001, officers were granted stock options that were not approved by the Compensation Committee of the Board of Directors on the date listed on the approval documentation. Instead, on some occasions, the dates were selected to coincide with a low price for a period. The grants were typically documented using a Unanimous Written Consent ("UWC") prepared in most instances by the human resources department. The UWCs did not appropriately reflect that the approval date was not the date indicated in the document. With the following exceptions, this practice appears to have ended after 2001.

  Between December 1999 and January 2003 there were instances where officers received a new hire grant that was dated on a date different from the date on which the Compensation Committee approved the grant. Each of these grants was documented using a UWC prepared by the human resources department. The UWCs did not appropriately reflect that the approval date was not the date indicated in the document. This practice, with one exception in January 2003, appears to have ended in July 2002.

  In late 2003, there was one granting action for which the exercise price of the options coincided with the date of a Compensation Committee meeting, but for which Rambus was unable to establish that all of the specific allocations and approvals had been completed as of the date of that meeting. Consequently, Rambus has concluded that the grants relating to some of the officers receiving that grant had incorrect measurement dates.

  There were no material measurement date differences relating to annual or other grants to non-executive employees in the fiscal years 2005 and 2006.

- Extension of Termination Dates Rambus determined that from 1997 to March 2005 it had not maintained accurate documentation, and had not properly accounted for stock-based compensation, for stock options granted to individuals who had extensions of option termination dates and, in some cases, extensions of vesting periods pursuant to separation agreements under which the individuals did not perform any significant duties during the separation period but were still listed as employees. These types of modifications were not always communicated to Rambus' finance department, were not identified in Rambus' financial reporting processes and were therefore not properly reflected in its consolidated financial statements.

- Payroll Tax Withholding Liability Rambus determined that certain of its stock grants which had incorrect measurement dates for accounting purposes had been originally issued as incentive stock options but no longer qualified for ISO tax treatment. The disqualification of the ISO classification and the resulting conversion to non-qualified stock option ("NSO") status exposes Rambus to additional withholding taxes and penalties for failure to properly withhold taxes on the exercise of those options. These expenses reverse in the period in which the related statute of limitations expires.

- Other Stock-based Compensation Adjustments Rambus determined that other miscellaneous modifications and errors had occurred related to employee options that were not identified in its financial reporting processes and therefore not properly reflected in its consolidated financial statements. These miscellaneous items included

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adjustments for grants to non-employees providing consulting services, adjustments for continued vesting after an individual converted from an employee to a consultant and adjustments in 2006 related to the accounting for the Company's ESPP under FAS123(R).

In connection with the restatement and Rambus' internal review of other accounting items relating to transactions occurring in fiscal years 1997 through 2006, the Company identified certain other errors in accounting determinations and judgments which, although immaterial, have been reflected in the restated consolidated financial statements. These primarily include timing differences for revenue and expense recognition and certain balance sheet reclassifications.

Rambus previously applied APB 25 and its related interpretations and provided the required pro forma disclosures under SFAS 123 through its fiscal year ended December 31, 2005. Under the provisions of APB 25, a non-cash, stock-based compensation expense was required to be recognized for any option granted for which the exercise price was below the market price on the actual grant date. Because most of the Company's remeasured options had an exercise price below the market price on the actual grant date, there should have been a non-cash charge for each of these options under APB 25 equal to the number of option shares, multiplied by the difference between the exercise price and the market price on the actual grant date. That expense should have been amortized over the vesting period of the options. Starting in fiscal year 2006, Rambus adopted SFAS 123(R). As a result, beginning in fiscal year 2006, the additional stock-based compensation expense required to be recorded for each remeasured option is equal to the fair value of the option on the actual grant date, amortized over the remaining expected requisite service period of the option. Rambus did not record these stock-based compensation expenses under APB 25 or SFAS 123(R) in its previously issued consolidated financial statements, and that is why it is restating them in this filing.

*Restatement and Impact on Consolidated Financial Statements*

As a result of the issues identified, Rambus recorded additional pre-tax, non-cash, stock-based compensation expense of $169.4 million under APB 25 for the period between May 13, 1997 (the date of its initial public offering) and December 31, 2005, comprised of $146.9 million related to remeasured stock options and $22.5 million related to other stock compensation adjustments. The cumulative tax benefit from the recording of these adjustments was $67.0 million. The impact of these adjustments, net of taxes, decreased Rambus' previously reported cumulative net income by $102.4 million for the same period. The tax benefit amount differs from the statutory tax benefit principally as a result of limitations on Rambus' ability to deduct certain executive stock-based compensation and change in geographical mix of expenses.

For the year ended December 31, 2006, in accordance with SFAS 123(R), Rambus recorded additional pre-tax, non-cash, stock-based compensation expense of $6.8 million, comprised of $6.3 million related to these remeasured stock options and $0.5 million related to other stock compensation adjustments. As of December 31, 2006, the Company had $6.6 million of unrecognized pre-tax stock-based compensation costs calculated under SFAS 123(R) related to remeasured stock option grants that will be recorded as compensation expense over the remaining expected requisite service period of the options.

Approximately $132.8 million of the total stock-based compensation expenses, representing adjustments from 1997 through 2003, have been reflected, net of income tax effects of $46.4 million, as an increase of $86.4 million to accumulated deficit in the opening balance sheet for fiscal 2004.

Because certain options formerly classified as ISO grants were determined to have been granted with an exercise price below the fair market value of Rambus' stock on the actual grant date, they do not qualify for ISO tax treatment. The disqualification of ISO classification and the resulting conversion to NSO status exposes Rambus to

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additional withholding taxes and penalties for failing to properly withhold taxes on exercise of those options. Through December 31, 2006, the Company recorded a tax liability of $1.5 million in connection with the disqualification of such ISO tax treatment for tax years ending December 31, 2003 through December 31, 2006. Of the total liability, $0.3 million was related to fiscal 2006 and was paid in fiscal 2007. These amounts are included in the other stock-based compensation adjustments discussed above. Rambus is currently under IRS remote examination with regard to this issue.

Rambus was unable to record additional deferred tax assets related to stock-based compensation in accordance with limits imposed by Section 162(m) of the Internal Revenue Code on certain executive compensation. Consequently, the Company was required to reduce its available tax net operating loss carry-forwards arising from certain exercised stock options by $15.6 million for periods through December 31, 2005 because of this Section 162(m) limitation.

For explanatory purposes, Rambus has classified the stock option and other adjustments that were affected by the restatement into the aforementioned categories as presented below. The classified amounts involve certain subjective judgments by Rambus to the extent particular stock option related accounting errors may fall within more than one category As such, the table below should be considered a reasonable representation of the magnitude of expenses in each category. For the fiscal years ended December 31, 2005 and September 30, 2000, Rambus had previously recorded stock-based compensation expense of $2.7 million and $171.1 million, respectively, with a related tax benefit of $0.1 million and $29.8 million, respectively, in its reported consolidated financial statements. For fiscal 2005 and 2000, total stock-based compensation, as restated, was $20.5 million and $204.1 million, respectively, with a related tax benefit of $13.2 million and $40.0 million, respectively.

The ten year impact of the restatement on stock-based compensation is as follows:

| *(in thousands)* | Cumulative effect at December 31, 2005 | Twelve Months ended December 31, 2005 | Twelve Months ended December 31, 2004 | Cumulative effect at December 31, 2003 | Twelve Months Ended December 31, 2003 | Three Months Ended December 31, 2002 |
|---|---|---|---|---|---|---|
| Net income, as previously reported (1) | | $ 33,677 | $ 33,559 | | | |
| Stock-based compensation adjustments: | | | | | | |
| Additional compensation expense resulting from improper measurement dates for stock option grants: | | | | | | |
| New hire grants to employees | $ (13,766) | (762) | (1,323) | $ (11,681) | $ (2,722) | $ (665) |
| Annual and other grants to employees | (83,893) | (12,655) | (12,230) | (59,008) | (14,413) | (3,891) |
| All grants to officers | (49,235) | (4,311) | (8,148) | (36,776) | (8,404) | (2,763) |
| Subtotal charges for changes to measurement date | (146,894) | (17,728) | (21,701) | (107,465) | (25,539) | (7,319) |
| Other stock-based compensation adjustments: | | | | | | |
| Terminations | (21,180) | (277) | (1,576) | (19,327) | (1,613) | (21) |
| Payroll tax (expense) benefit | (960) | 234 | 4,534 | (5,728) | 344 | — |
| Other matters related to stock-based compensation | (328) | — | (32) | (296) | — | — |
| Subtotal other stock-based compensation adjustments | (22,468) | (43) | 2,926 | (25,351) | (1,269) | (21) |
| Total stock-based compensation adjustments | (169,362) | (17,771) | (18,775) | (132,816) | (26,808) | (7,340) |
| Tax related effects of stock-based compensation adjustments | 66,989 | 13,070 | 7,558 | 46,361 | 9,421 | 2,057 |
| Additional compensation expense, net of tax | (102,373) | (4,701) | (11,217) | (86,455) | (17,387) | (5,283) |
| Other miscellaneous adjustments | (60) | (60) | 32 | (32) | | |
| Tax related effects for other miscellaneous adjustments | 24 | 24 | (13) | 13 | | |
| Other adjustments, net of tax | (36) | (36) | 19 | (19) | | |

| | | | | |
|---|---|---|---|---|
| Total decrease | $ (102,409) | (4,737) | (11,198) | $ (86,474) |
| Net income, as restated | | $ 28,940 | $ 22,361 | |

(1) The effects of the restatement adjustments on previously reported net income are reconciled only for the years being reported in the Statement of Operations in this Form 10-K. Net income for all other periods is not being reconciled for the effects of the restatement.

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| | Twelve Months Ended September 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2002 | 2001 | 2000 | 1999 | 1998 | 1997 |
| Stock-based compensation adjustments: | | | | | | |
| Additional compensation expense resulting from improper measurement dates for stock option grants: | | | | | | |
| New hire grants to employees | $ (2,767) | $ (3,194) | $ (1,902) | $ (431) | $ — | $— |
| Annual and other grants to employees | (21,287) | (11,138) | (6,159) | (2,110) | (10) | — |
| All grants to officers | (10,312) | (7,280) | (5,917) | (2,064) | (36) | — |
| Subtotal charges for changes to measurement date | (34,366) | (21,612) | (13,978) | (4,605) | (46) | — |
| Other stock-based compensation adjustments: | | | | | | |
| Terminations | (56) | (1,463) | (13,623) | (2,063) | (488) | — |
| Payroll tax (expense) benefit | 106 | (353) | (5,137) | (581) | (107) | — |
| Other matters related to stock-based compensation | — | 63 | (274) | 216 | (301) | — |
| Subtotal other stock-based compensation adjustments | 50 | (1,753) | (19,034) | (2,428) | (896) | — |
| Total stock-based compensation adjustments | (34,316) | (23,365) | (33,012) | (7,033) | (942) | — |
| Tax related effects of stock-based compensation adjustments | 10,142 | 12,216 | 10,166 | 2,000 | 359 | — |
| Additional compensation expense, net of tax | (24,174) | (11,149) | (22,846) | (5,033) | (583) | — |

*Costs of Restatement and Related Legal Activities*

Rambus has incurred substantial expenses for legal, accounting, tax and other professional services in connection with the investigation, the Company's internal review, restatement activities, preparation of the December 31, 2006 consolidated financial statements and restated consolidated financial statements and related legal matters. These expenses were approximately $31.4 million for the year ended December 31, 2006, including an accrual of of $18.0 million related to the potential settlement of the class action lawsuits in connection with the stock option investigation. Through the second quarter of fiscal year 2007, the Company has incurred additional expenses of approximately $14.4 million for the above noted activities. Rambus expects to continue to incur significant expenses in connection with the derivative and private lawsuits and other stock option investigation related matters. See Note 17, "Litigation and Asserted Claims."

*Default and Potential Acceleration of Convertible Notes*

For a complete discussion of the convertible notes and related alleged default and potential acceleration, See Note 16 "Convertible Notes".

*Impact on Consolidated Financial Statements*

The following tables reflect the impact of the adjustments for stock-based compensation and other adjustments, including the related tax impacts on:

- the consolidated statements of operations for the years ended December 31, 2005 and 2004
- the consolidated balance sheet as of December 31, 2005
- the consolidated statements of cash flows for the years ended December 31, 2005 and 2004
- the pro forma information required by SFAS No. 123 for the years ended December 31, 2005 and 2004
- net income per share for the years ended December 31, 2005 and 2004

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**Consolidated Statements of Operations**

| *(in thousands, except per share amounts)* | Twelve Months Ended December 31, 2005 | | | 2004 | | |
|---|---|---|---|---|---|---|
| | As previously reported | Adjustments | As restated | As previously reported | Adjustments | As restated |
| Revenues: | | | | | | |
| Contract revenues | $ 26,876 | $ — | $ 26,876 | $ 24,742 | $ — | $ 24,742 |
| Royalties | 130,322 | — | 130,322 | 120,132 | — | 120,132 |
| Total revenues | 157,198 | — | 157,198 | 144,874 | — | 144,874 |
| Costs and expenses: | | | | | | |
| Cost of contract revenues * | 19,766 | 3,967 | 23,733 | 20,246 | 3,281 | 23,527 |
| Research and development * | 40,972 | 8,144 | 49,116 | 32,627 | 5,676 | 38,303 |
| Marketing, general and administrative * | 74,698 | 5,720 | 80,418 | 52,484 | 9,786 | 62,270 |
| Total costs and expenses | 135,436 | 17,831 | 153,267 | 105,357 | 18,743 | 124,100 |
| Operating income | 21,762 | (17,831) | 3,931 | 39,517 | (18,743) | 20,774 |
| Interest and other income, net | 34,830 | — | 34,830 | 8,368 | — | 8,368 |
| Income before income taxes | 56,592 | (17,831) | 38,761 | 47,885 | (18,743) | 29,142 |
| Provision for income taxes | 22,915 | (13,094) | 9,821 | 14,326 | (7,545) | 6,781 |
| Net income | $ 33,677 | $ (4,737) | $ 28,940 | $ 33,559 | $ (11,198) | $ 22,361 |
| Net income per share: | | | | | | |
| Basic | $ 0.34 | $ (0.05) | $ 0.29 | $ 0.33 | $ (0.11) | $ 0.22 |
| Diluted | $ 0.32 | $ (0.04) | $ 0.28 | $ 0.30 | $ (0.09) | $ 0.21 |
| Weighted average shares used in per share calculations: | | | | | | |
| Basic | 99,876 | | 99,876 | 101,931 | | 101,931 |
| Diluted | 103,993 | | 103,530 | 110,050 | | 108,547 |
| * Includes stock-based compensation: | | | | | | |
| Cost of contract revenues | $ — | $ 3,897 | $ 3,897 | $ — | $ 3,293 | $ 3,293 |
| Research and development | $ — | $ 8,056 | $ 8,056 | $ — | $ 5,664 | $ 5,664 |
| Marketing, general and administrative | $ 2,689 | $ 5,818 | $ 8,507 | $ — | $ 9,818 | $ 9,818 |

**Consolidated Balance Sheet**

| *(in thousands, except share and per share amounts)* | December 31, 2005 | | |
|---|---|---|---|
| | As previously reported | Adjustments | As restated |
| **ASSETS** | | | |
| Current assets: | | | |
| Cash and cash equivalents | $ 42,391 | $ — | $ 42,391 |
| Marketable securities | 118,416 | — | 118,416 |
| Accounts receivable | 954 | — | 954 |
| Deferred and prepaid taxes | 3,786 | 41 | 3,827 |
| Prepaids and other current assets | 4,235 | 184 | 4,419 |
| Total current assets | 169,782 | 225 | 170,007 |
| Marketable securities, long term | 194,583 | — | 194,583 |
| Restricted cash | 2,279 | — | 2,279 |
| Deferred taxes, long term | 69,059 | 29,485 | 98,544 |
| Purchased intangible assets, net | 23,650 | — | 23,650 |
| Property and equipment, net | 18,898 | 724 | 19,622 |
| Goodwill | 3,315 | — | 3,315 |
| Other assets | 3,953 | — | 3,953 |
| Total assets | $ 485,519 | $ 30,434 | $ 515,953 |
| **LIABILITIES** | | | |
| Current liabilities: | | | |
| Accounts payable | $ 4,374 | $ — | $ 4,374 |
| Accrued salaries and benefits | 4,934 | 960 | 5,894 |
| Accrued litigation expenses | 4,633 | — | 4,633 |
| Other accrued liabilities | 5,693 | (1,155) | 4,538 |
| Deferred revenue | 973 | — | 973 |
| Total current liabilities | 20,607 | (195) | 20,412 |
| Convertible notes | 160,000 | — | 160,000 |
| Deferred revenue, less current portion | 8,317 | — | 8,317 |
| Other long-term liabilities | 1,592 | 2,165 | 3,757 |
| Total liabilities | 190,516 | 1,970 | 192,486 |
| Commitments and contingencies (Notes 7 and 17) | | | |
| **STOCKHOLDERS' EQUITY** | | | |
| Convertible preferred stock, $.001 par value: | | | |
| Authorized: 5,000,000 shares; | | | |
| Issued and outstanding: no shares at December 31, 2005 | — | — | — |
| Common Stock, $.001 par value: | | | |
| Authorized: 500,000,000 shares; | | | |
| Issued and outstanding: 99,397,257 shares at December 31, 2005 | 99 | — | 99 |
| Additional paid in capital | 327,524 | 150,995 | 478,519 |
| Deferred stock-based compensation | — | (20,122) | (20,122) |
| Accumulated deficit | (30,973) | (102,409) | (133,382) |
| Accumulated other comprehensive loss | (1,647) | — | (1,647) |
| Total stockholders' equity | 295,003 | 28,464 | 323,467 |
| Total liabilities and stockholders' equity | $ 485,519 | $ 30,434 | $ 515,953 |

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**Consolidated Statements of Cash Flows**

| *(in thousands)* | Twelve Months Ended December 31, 2005 As previously reported | 2005 Adjustments | 2005 As restated | 2004 As previously reported | 2004 Adjustments | 2004 As restated |
|---|---|---|---|---|---|---|
| Cash flows from operating activities: | | | | | | |
| Net income | $ 33,677 | $ (4,737) | $ 28,940 | $ 33,559 | $ (11,198) | $ 22,361 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | | | | |
| Stock-based compensation | 2,689 | 17,771 | 20,460 | — | 18,775 | 18,775 |
| Depreciation | 9,165 | (63) | 9,102 | 5,646 | — | 5,646 |
| Amortization of intangible assets and note issuance costs | 5,410 | — | 5,410 | 2,501 | — | 2,501 |
| Tax benefit from equity incentive plans | 3,592 | (2,923) | 669 | 39,463 | (16,269) | 23,194 |
| Gain on repurchase of convertible notes | (24,014) | — | (24,014) | — | — | — |
| Gain on sale of investment | — | — | — | (3,598) | — | (3,598) |
| Loss on disposal of property and equipment | 221 | — | 221 | — | — | — |
| Change in operating assets and liabilities: | | | | | | |
| Accounts receivable | 481 | — | 481 | 8,828 | — | 8,828 |
| Prepaids, deferred taxes and other assets | 16,062 | (10,382) | 5,680 | (30,957) | 8,695 | (22,262) |
| Accounts and taxes payable, accrued salaries and benefits and other accrued liabilities | 382 | 995 | 1,377 | 6,640 | (3) | 6,637 |
| Increases in deferred revenue | 17,384 | — | 17,384 | 14,116 | — | 14,116 |
| Decreases in deferred revenue | (31,917) | — | (31,917) | (32,495) | — | (32,495) |
| Net cash provided by operating activities | 33,132 | 661 | 33,793 | 43,703 | — | 43,703 |
| Cash flows from investing activities: | | | | | | |
| Purchases of property and equipment | (7,375) | (661) | (8,036) | (11,934) | — | (11,934) |
| Purchases of leasehold improvements | (531) | — | (531) | (325) | — | (325) |
| Acquisition of intangible assets | (2,500) | — | (2,500) | (11,084) | — | (11,084) |
| Acquisition of business | (5,434) | — | (5,434) | — | — | — |
| Purchases of marketable securities | (347,700) | — | (347,700) | (119,456) | — | (119,456) |
| Maturities of marketable securities | 222,142 | — | 222,142 | 76,812 | — | 76,812 |
| Decrease (increase) in restricted cash | 2,788 | — | 2,788 | (491) | — | (491) |
| Proceeds from sale of investment | — | — | — | 5,598 | — | 5,598 |
| Net cash used in investing activities | (138,610) | (661) | (139,271) | (60,880) | — | (60,880) |
| Cash flows from financing activities: | | | | | | |
| Payments under installment payment arrangement | (400) | — | (400) | — | — | — |

| | | | | | | |
|---|---|---|---|---|---|---|
| Net proceeds from issuance of Common Stock under stock options and employee stock purchase plan | 8,523 | — | 8,523 | 45,087 | — | 45,087 |
| Repurchase and retirement of Common Stock | (88,166) | — | (88,166) | (21,653) | — | (21,653) |
| Net proceeds from issuance of convertible notes | 292,750 | — | 292,750 | — | — | — |
| Repurchase of convertible notes | (112,988) | — | (112,988) | — | — | — |
| Net cash provided by financing activities | 99,719 | — | 99,719 | 23,434 | — | 23,434 |
| Effect of exchange rates on cash and cash equivalents | (160) | — | (160) | 48 | — | 48 |
| Net increase (decrease) in cash and cash equivalents | (5,919) | — | (5,919) | 6,305 | — | 6,305 |
| Cash and cash equivalents at beginning of period | 48,310 | — | 48,310 | 42,005 | — | 42,005 |
| Cash and cash equivalents at end of period | $ 42,391 | $ — | $ 42,391 | $ 48,310 | $ — | $ 48,310 |
| Non-cash investing and financing activities: | | | | | | |
| Property and equipment acquired under installment payment arrangement | $ 2,800 | $ — | $ 2,800 | $ — | $ — | $ — |
| Supplemental disclosure of cash flow information: | | | | | | |
| Taxes paid | $ 1,530 | $ 1,094 | $ 2,624 | $ 2,494 | $ 5,243 | $ 7,737 |
| Taxes refunded | $ — | $ — | $ — | $ — | $ 499 | $ 499 |

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**Pro Forma Net Income (Loss) per Share**

| *(in thousands, except per share amounts)* | 2005 | | | 2004 | | |
|---|---|---|---|---|---|---|
| | As previously reported | Adjustments | As restated | As previously reported | Adjustments | As restated |
| Net income, as reported | $ 33,677 | $ (4,737) | $ 28,940 | $ 33,559 | $ (11,198) | $ 22,361 |
| Add: Stock-based employee compensation expense included in reported net earnings, net of tax (2) | 1,600 | 5,628 | 7,228 | — | 11,217 | 11,217 |
| Deduct: Stock-based employee compensation expense determined under the fair value method, net of tax | (32,221) | (12,950) | (45,171) | (34,051) | (10,937) | (44,988) |
| Pro forma net income (loss) | $ 3,056 | $ (12,059) | $ (9,003) | $ (492) | $ (10,918) | $ (11,410) |
| Basic income (loss) per share | | | | | | |
| As reported | $ 0.34 | $ (0.05) | $ 0.29 | $ 0.33 | $ (0.11) | $ 0.22 |
| Pro forma | $ 0.03 | $ (0.12) | $ (0.09) | $ — | $ (0.11) | $ (0.11) |
| Diluted income (loss) per share | | | | | | |
| As reported | $ 0.32 | $ (0.04) | $ 0.28 | $ 0.30 | $ (0.09) | $ 0.21 |
| Pro forma (1) | $ 0.03 | $ (0.12) | $ (0.09) | $ — | $ (0.11) | $ (0.11) |
| Weighted average shares used in per share calculations: | | | | | | |
| Basic | 99,876 | | 99,876 | 101,931 | | 101,931 |
| Diluted (1) | 103,993 | | 103,530 | 110,050 | | 108,547 |

(1) When results of operations are a net loss, the diluted shares are the same as the basic shares.
(2) Adjustments to stock-based compensation expense in 2005 include the adjustment of $4.7 million related to the restatement as well as an adjustment of $0.9 million to the tax effect allocated to stock-based compensation as previously reported.

**Net Income per Share**

| *(in thousands, except per share amounts)* | December 31, 2005 | | | December 31, 2004 | | |
|---|---|---|---|---|---|---|
| | As previously reported | Adjustments | As restated | As previously reported | Adjustments | As restated |
| Numerator: | | | | | | |
| Net income | $ 33,677 | $ (4,737) | $ 28,940 | $ 33,559 | $ (11,198) | $ 22,361 |
| Denominator: | | | | | | |
| Weighted average shares used to compute basic EPS | 99,876 | | 99,876 | 101,931 | | 101,931 |
| Dilutive potential shares from stock options, ESPP and restricted stock units | 4,117 | | 3,654 | 8,119 | | 6,616 |
| Weighted average shares used to compute diluted EPS | 103,993 | | 103,530 | 110,050 | | 108,547 |
| Net income per share: | | | | | | |
| Basic | $ 0.34 | $ (0.05) | $ 0.29 | $ 0.33 | $ (0.11) | $ 0.22 |
| Diluted | $ 0.32 | $ (0.04) | $ 0.28 | $ 0.30 | $ (0.09) | $ 0.21 |

**4. Business Risks and Credit Concentration**

Rambus operates in the intensely competitive semiconductor industry, which has been characterized by price erosion, rapid technological change, short product life cycles, cyclical market patterns, litigation regarding patent and other intellectual property rights, and heightened international and domestic competition. Significant technological changes in the industry could adversely affect operating results.

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Rambus markets and sells its chip interfaces to a narrow base of customers and generally does not require collateral. For the twelve months ended December 31, 2006, revenue from Fujitsu, Elpida, Qimonda and Intel each accounted for greater than 10% of its total revenues. For the twelve months ended December 31, 2005, revenue from Intel, Elpida, Toshiba and Matsushita, each accounted for greater than 10% of Rambus' total revenues. For the twelve months ended December 31, 2004, revenue from Intel, Toshiba and Elpida each accounted for greater than 10% of Rambus' total revenues. Rambus expects that its revenue concentration will decrease over time as Rambus licenses new customers.

As of December 31, 2006 and 2005, Rambus' cash and cash equivalents were invested with two financial institutions in the form of commercial paper, money market accounts, and demand deposits. Rambus' exposure to market risk for changes in interest rates relates primarily to its investment portfolio. Rambus places its investments with high credit issuers and, by policy, attempts to limit the amount of credit exposure to any one issuer. As stated in Rambus' policy, it will ensure the safety and preservation of Rambus' invested funds by limiting default risk and market risk. Rambus has no investments denominated in foreign country currencies and therefore is not subject to foreign exchange risk from these assets.

Rambus mitigates default risk by investing in high credit quality securities and by positioning its portfolio to respond appropriately to a significant reduction in a credit rating of any investment issuer or guarantor. The portfolio includes only marketable securities with active secondary or resale markets to enable portfolio liquidity.

## 5. Marketable Securities

Rambus invests its excess cash primarily in U.S. government agency and treasury notes; commercial paper, corporate notes and bonds; and municipal notes and bonds that mature within three years.

All marketable securities are classified as available-for-sale and are summarized as follows:

| *(dollars in thousands)* | December 31, 2006 | | | |
|---|---|---|---|---|
| | Fair Value | Book Value | Unrealized Gain/(Loss) | Weighted Rate of Return |
| **Marketable securities:** | | | | |
| United States government debt securities | $226,813 | $227,576 | $ (763) | 4.2% |
| Corporate notes and bonds | 136,224 | 136,417 | (193) | 5.2% |
| Total marketable securities | $363,037 | $363,993 | $ (956) | |

| | December 31, 2005 | | | |
|---|---|---|---|---|
| | Fair Value | Book Value | Unrealized Gain/(Loss) | Weighted Rate of Return |
| **Marketable securities:** | | | | |
| United States government debt securities | $280,659 | $283,018 | $ (2,359) | 3.8% |
| Corporate notes and bonds | 32,340 | 32,705 | (365) | 2.4% |
| Total marketable securities | $312,999 | $315,723 | $ (2,724) | |

The estimated fair value of short and long-term investments classified by date of contractual maturity and the associated unrealized losses at December 31, 2006 and 2005 are as follows:

| *(in thousands)* | Twelve months ended December 31, 2006 | Twelve months ended December 31, 2005 | Unrealized loss as of December 31, 2006 | Unrealized loss as of December 31, 2005 |
|---|---|---|---|---|
| **Contractual Maturity** | | | | |
| Due within one year | $351,055 | $118,416 | $ (942) | $ (804) |
| Due from one year through three years | 11,982 | 194,583 | (14) | (1,920) |
| | $363,037 | $312,999 | $ (956) | $ (2,724) |

Of the total gross unrealized losses of $1.0 million as of December 31, 2006, approximately $0.8 million relates to securities with a fair value of $184.7 million that have been in a loss position for twelve months or more.

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## 6. Balance Sheet Details

*Purchased Intangible Assets, net*

Purchased intangible assets are comprised of the following:

| (in thousands) | December 31, 2006 Gross | Accumulated Amortization | Net |
|---|---|---|---|
| Patents | $ 9,911 | $ (3,202) | $ 6,709 |
| Intellectual property | 10,084 | (5,232) | 4,852 |
| Customer contracts and contractual relationships | 8,000 | (2,454) | 5,546 |
| Existing technology | 2,700 | (1,153) | 1,547 |
| Non-competition agreement | 100 | (57) | 43 |
| Total purchased intangible assets | $30,795 | $ (12,098) | $18,697 |

| (in thousands) | December 31, 2005 Gross | Accumulated Amortization | Net |
|---|---|---|---|
| Patents | $ 9,911 | $ (2,051) | $ 7,860 |
| Intellectual property | 9,784 | (2,728) | 7,056 |
| Customer contracts and contractual relationships | 8,000 | (1,564) | 6,436 |
| Existing technology | 2,700 | (478) | 2,222 |
| Non-competition agreement | 100 | (24) | 76 |
| Total purchased intangible assets | $30,495 | $ (6,845) | $23,650 |

See Note 14, "Acquisition" and Note 15, "Acquisition of Intellectual Property" for a discussion of amortization expense and useful lives of purchased intangibles.

*Property and Equipment, net*

Property and equipment, net is comprised of the following:

| (in thousands) | December 31, 2006 | 2005 As restated (1) |
|---|---|---|
| Computer equipment | $ 21,628 | $ 18,020 |
| Computer software | 31,992 | 21,669 |
| Furniture and fixtures | 6,057 | 5,683 |
| Leasehold improvements | 12,735 | 10,162 |
| | 72,412 | 55,534 |
| Less accumulated depreciation and amortization | (46,393) | (35,912) |
| | $ 26,019 | $ 19,622 |

(1) See Note 3, "Restatement of Consolidated Financial Statements," of the Notes to Consolidated Financial Statements.

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Depreciation expense for the years ended December 31, 2006, 2005 and 2004 was $11.2 million, $9.1 million and $5.6 million, respectively.

*Goodwill*

Changes in the carrying value of goodwill in the twelve months ended December 31, 2006 and 2005 are as follows:

| *(in thousands)* | 2006 | 2005 |
|---|---|---|
| Beginning balance at January 1 | $3,315 | $ 581 |
| Goodwill acquired during the period | — | 2,734 |
| Ending balance at December 31 | $3,315 | $3,315 |

*Accumulated Other Comprehensive Loss*

Accumulated other comprehensive loss is comprised of the following:

| | December 31, | |
|---|---|---|
| *(in thousands)* | 2006 | 2005 |
| Accumulated other comprehensive loss: | | |
| Foreign currency translation adjustments | $ 41 | $ 17 |
| Unrealized losses on available for sale securities, net of tax | 589 | 1,630 |
| Total | $630 | $1,647 |

**7. Commitments and Contingencies**

Rambus leases its present office facilities in Los Altos, California, under an operating lease agreement through December 31, 2010. As part of this lease transaction, the Company provided a letter of credit restricting $600,000 of its cash as collateral for certain obligations under the lease. The cash is restricted as to withdrawal and is managed by a third party subject to certain limitations under the Company's investment policy. Rambus also leases a facility in Mountain View, California, through November 11, 2009, Chapel Hill, North Carolina through November 15, 2009 and leases a facility for the Company's design center in Bangalore, India through November 30, 2009. In addition, as a result of the Company's acquisition of GDA in 2005, it entered into a lease for an additional facility in Bangalore, India through March 31, 2007, which was recently extended to mid-November 2007. The Company also leases office facilities in Austin, Texas and various international locations under non-cancelable leases that range in terms from month-to-month to one year.

In May 2006, Rambus signed an agreement to lease a new office facility in Bangalore, India into which it intends to consolidate all of the Company's Bangalore operations. Rambus is currently awaiting receipt of a certificate of occupancy or confirmation of deemed occupancy under local statutes in order for Rambus to occupy the building.

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On February 1, 2005, Rambus issued $300.0 million aggregate principal amount of zero coupon convertible senior notes (the "convertible notes") due February 1, 2010 to Credit Suisse First Boston LLC and Deutsche Bank Securities as initial purchasers who then sold the convertible notes to institutional investors. Rambus elected to pay the principal amount of the convertible notes in cash when they are due and the initial conversion price of the convertible notes is $26.84 per share. Subsequently, Rambus repurchased a total of $140.0 million face value of the outstanding convertible notes. As a result, the convertible notes outstanding and payable as of December 31, 2005 were reduced to $160.0 million.

On August 17, 2006, Rambus received a notice of default from U.S. Bank National Association, as trustee (the "Trustee") for the convertible notes. The notice asserted that the Company's failure to file its Form 10-Q for the quarter ended June 30, 2006 constituted a default under Sections 7.2 and 14.1 of the indenture, dated as of February 1, 2005 between Rambus and the Trustee (the "Indenture"). The notice stated that per Section 9.1 of the Indenture, if Rambus did not cure the default within sixty days of August 17, 2006, an event of default would occur. On October 25, 2006, Rambus received a notice from the Trustee stating that since the Company had not cured the default that had been asserted by the Trustee within the sixty day cure period, an event of default had in fact occurred as of October 16, 2006. On January 22, 2007, Rambus received an additional notice of default from the Trustee relating to the Company's failure to file its Form 10-Q for the quarter ended September 30, 2006. On July 31, 2007, Rambus received a notice of acceleration from the Trustee stating that under direction received from holders of more than 25% in aggregate principal amount of the outstanding convertible notes, the Trustee was declaring the unpaid principal plus accrued interest and unpaid liquidated damages immediately due and payable. Default interest on the convertible notes accrues at a rate of 2% per annum from the date on which full payment of the convertible notes is due to the date that full payment is made.

As of December 31, 2006, the Company has reclassified the aggregate principal amount of the convertible notes of $160.0 million from non-current liabilities to current liabilities and reflected them as due in less than one year. In addition, related issuance costs of approximately $3.2 million have been expensed in 2006, including approximately $2.4 million which was accelerated into the quarter ending December 31, 2006. Rambus is evaluating its options with respect to the notes as a result of the receipt of the notice of acceleration and believes that it has adequate financial resources to pay any unpaid principal and any accrued or default interest due on the convertible notes. See Note 16, "Convertible Notes," for a detailed discussion of this matter.

As of December 31, 2006, Rambus's material contractual obligations are:

| | Payment due by period | | | | |
|---|---|---|---|---|---|
| *(in thousands)* | Total | Less than 1 year | 1-3 years | 3-5 years | More than 5 years |
| **Contractual obligations** | | | | | |
| Operating leases | $ 23,239 | $ 6,446 | $11,728 | $5,065 | $ — |
| Convertible notes | 160,000 | 160,000 | — | — | — |
| Purchased software license agreements(1) | 8,212 | 7,394 | 818 | — | — |
| Total | $191,451 | $173,840 | $12,546 | $5,065 | $ — |

(1) Rambus has commitments with various software vendors for non-cancellable license agreements that generally have terms longer than one year. The above table summarizes those contractual obligations as of December 31, 2006, which are also listed on Rambus' balance sheet under current and other long-term liabilities.

Rent expense was approximately $6.0 million for the year ending December 31, 2006 and $5.1 million for each of the years ended December 31, 2005 and 2004.

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Deferred rent, included primarily in other long-term liabilities, was approximately $1.7 million as of December 31, 2006 and 2005.

In connection with certain German litigation, the German courts have requested that the Company set aside adequate funds to cover potential court cost claims. Accordingly, approximately $1.7 million is restricted as to withdrawal, managed by a third party subject to certain limitations under the Company's investment policy and included in restricted cash to cover the German court requirements.

The Company entered into compensation agreements with two new executives in December 2006, which provide for the granting of a total of 60,000 restricted stock units as soon as practicable after the Company becomes current with its SEC filings and registers its 2006 Equity Incentive Plan under which these units would be granted.

*Indemnifications*

Rambus enters into standard license agreements in the ordinary course of business. Although Rambus does not indemnify most of its customers, there are times when an indemnification is a necessary means of doing business. Indemnifications cover customers for losses suffered or incurred by them as a result of any patent, copyright, or other intellectual property infringement claim by any third party with respect to Rambus' products. The maximum amount of indemnification Rambus could be required to make under these agreements is generally limited to fees received by Rambus. Rambus estimates the fair value of its indemnification obligation as insignificant, based upon its history of litigation concerning product and patent infringement claims. Accordingly, Rambus has no liabilities recorded for indemnification under these agreements as of December 31, 2006 or 2005.

Several securities fraud class actions, private lawsuits and shareholder derivative actions were filed in state and federal courts against certain of the Company's current and former officers and directors related to the stock option granting actions under investigation. As permitted under Delaware law, Rambus has agreements whereby its officers and directors are indemnified for certain events or occurrences while the officer or director is, or was serving, at Rambus' request in such capacity. The term of the indemnification period is for the officer's or director's term in such capacity. The maximum potential amount of future payments Rambus could be required to make under these indemnification agreements is unlimited. Rambus has a director and officer insurance policy that reduces Rambus' exposure and enables Rambus to recover a portion of future amounts to be paid. As a result of these indemnification agreements, Rambus continues to make payments on behalf of current and former officers. As of December 31, 2006, the Company had made payments of approximately $0.9 million on their behalf. Through the second quarter of fiscal 2007, the Company had made additional payments of approximately $3.5 million.

*Warranties*

Rambus offers some of its customers a warranty that its products will conform to their functional specifications. To date, there have been no payments or material costs incurred related to fulfilling these warranty obligations. Accordingly, Rambus has no liabilities recorded for these warranties as of December 31, 2006 or 2005. Rambus assesses the need for a warranty accrual on a quarterly basis and there can be no guarantee that a warranty accrual will not become necessary in the future.

**8. Employee Stock Option Plans**

*Stock Option Plans*

***1997 Stock Option Plan***

In May 1997, the Company adopted the 1997 Stock Option Plan (the "1997 Plan"), which, as amended, provided for the issuance of incentive and nonqualified stock options to its employees, directors and non-employees. The 1997 Plan provided for an annual increase equal to the lesser of (i) the number of shares needed to restore the maximum aggregate number of shares which may be optioned and sold under the 1997 Plan to 4,000,000 shares; (ii) four percent

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(4%) of the outstanding shares on such date; or (iii) a lesser amount determined by the Board of Directors. The Company reserved 31,089,057 shares of Common Stock for issuance under the 1997 Plan. The 1997 Plan was set to expire ten years after adoption, and the Board of Directors or a committee designated by the Board of Directors has the authority to determine to whom options would be granted, the number of shares, the vesting period and the exercise price (which generally cannot be less than 100% of the fair market value at the date of grant for incentive stock options). The options are exercisable at times and increments as specified by the Board of Directors, typically had a requisite service period of 60 months, had graded vesting schedules and expire not more than ten years from date of grant. In October 1999, the 1997 Plan was revised to add the provision and ability of the Company to grant Common Stock equivalents, which are unfunded and unsecured rights to receive shares in the future. See Note 9, "Stockholders' Equity," for a discussion of these Common Stock equivalents. Effective with stockholder approval of the 2006 Equity Incentive Plan on May 10, 2006, the ability to grant options under the 1997 Plan expired. No further awards will be made under this plan, but it will continue to govern awards previously granted under the plan.

***1999 Non-statutory Stock Option Plan***

In October 1999, the Company adopted the 1999 Non-statutory Stock Option Plan (the "1999 Plan"), which, as amended, provides for the issuance of nonqualified stock options to its employees and non-employees. Under the 1999 Plan, 14.8 million shares of Common Stock have been authorized for issuance. The 1999 Plan expires ten years after adoption, and the Board of Directors or a committee designated by the Board of Directors has the authority to determine to whom options will be granted, the number of shares, the vesting period, the expiration date and the exercise price (which generally is the fair market value at the date of grant). These options typically had a requisite service period of 60 months, graded vesting schedules, and expired not more than ten years from date of grant. Effective with stockholder approval of the 2006 Equity Incentive Plan on May 10, 2006, the ability to grant options under the 1999 Plan terminated. No further awards will be made under this plan, but it will continue to govern awards previously granted under the plan.

***2006 Equity Incentive Plan***

In March 2006, the Company adopted the 2006 Equity Incentive Plan (the "2006 Plan"), subject to stockholder approval, which, as amended, provides for the issuance of the following types of incentive awards: (i) stock options; (ii) stock appreciation rights; (iii) restricted stock; (iv) restricted stock units; (v) performance shares and performance units; and (vi) other stock or cash awards. This plan provides for the granting of shares at less than fair market value, but such grants would be counted against the numerical limits of available shares at a ratio of 1.5 to 1. The Board of Directors reserved 8,400,000 shares in March 2006 for issuance under this plan, subject to stockholder approval. Upon stockholder approval of this Plan on May 10, 2006, the 1997 Plan was replaced and the 1999 Plan was terminated. Those who will be eligible for awards under the 2006 Plan include employees, directors and consultants who provide services to the Company and its affiliates. These options typically have a requisite service period of 60 months, have straight-line vesting schedules, and expire not more than ten years from date of grant. The Board expects that the number of shares reserved for issuance under the 2006 Plan will be sufficient to operate the plan for two years from its inception without having to request the approval of additional shares from the Company's stockholders. The Board will periodically review actual share consumption under the 2006 Plan and may make a request for additional shares earlier or later than this period, as needed. As of December 31, 2006, 7,866,200 shares remain available for grant under this plan.

The 2006 Plan is now Rambus' only plan for providing stock-based incentive compensation to eligible employees, executive officers and non-employee directors and consultants.

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A summary of shares available for grant under the Company's plans is as follows:

| | Shares Available for Grant |
|---|---|
| Shares available as of December 31, 2003 | 3,916,659 |
| Additional shares reserved | 3,653,146 |
| Stock options granted | (3,153,800) |
| Stock options forfeited | 1,214,603 |
| Shares available as of December 31, 2004 | 5,630,608 |
| Additional shares reserved | 2,211,276 |
| Stock options granted | (3,333,740) |
| Stock options forfeited | 1,209,322 |
| Nonvested equity stock and stock units granted | (125,000) |
| Shares available as of December 31, 2005 | 5,592,466 |
| Additional shares reserved | 10,818,836 |
| Stock options granted | (2,397,850) |
| Stock options forfeited | 4,879,815 |
| Stock options expired | (10,923,684) |
| Nonvested equity stock and stock units granted | (103,383) |
| Total available for grant as of December 31, 2006 | 7,866,200 |

*General Stock Option Information*

The following table summarizes stock option activity under the 1997, 1999 and 2006 plans for the three years ended December 31, 2006 and information regarding stock options outstanding, exercisable, and vested and expected to vest as of December 31, 2006.

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| *(dollars in thousands, except per share amounts)* | Options Outstanding: Number of Shares | Options Outstanding: Weighted Average Exercise Price Per Share | Weighted Average Remaining Contractual Term | Aggregate Intrinsic Value |
|---|---|---|---|---|
| Outstanding as of December 31, 2003 | 27,643,801 | $ 14.80 | | |
| Options granted | 3,153,800 | 19.81 | | |
| Options exercised | (4,618,914) | 8.97 | | |
| Options forfeited | (1,214,603) | 20.34 | | |
| Outstanding as of December 31, 2004 | 24,964,084 | 16.25 | | |
| Options granted | 3,333,740 | 15.61 | | |
| Options exercised | (1,060,985) | 5.22 | | |
| Options forfeited | (1,209,322) | 23.09 | | |
| Outstanding as of December 31, 2005 | 26,027,517 | 16.30 | | |
| Options granted | 2,397,850 | 26.99 | | |
| Options exercised | (4,872,675) | 11.34 | | |
| Options forfeited | (4,879,815) | 18.80 | | |
| Outstanding as of December 31, 2006 | 18,672,877 | $ 18.32 | 6.11 | $96,258 |
| Vested or expected to vest at December 31, 2006 | 16,625,402 | $ 18.82 | 6.05 | $81,713 |
| Options exercisable at December 31, 2006 | 9,693,513 | $ 18.00 | 4.71 | $64,394 |

The aggregate intrinsic value in the table above represents the total pretax intrinsic value for in-the-money options at December 31, 2006, based on the $18.93 closing stock price on December 29, 2006, the last trading day of 2006, of Rambus' Common Stock on The Nasdaq Global Select Market, which would have been received by the option holders had all option holders exercised their options as of that date. The total number of in-the-money options outstanding and exercisable as of December 31, 2006 was 12,227,982 and 7,029,923, respectively.

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The following table summarizes the information about stock options outstanding and exercisable as of December 31, 2006:

| | Options Outstanding | | | Options Exercisable | |
|---|---|---|---|---|---|
| Range of Exercise Prices | Number Outstanding | Weighted Average Remaining Contractual Life | Weighted Average Exercise Price | Number Exercisable | Weighted Average Exercise Price |
| $ 1.25 - $ 4.67 | 2,071,578 | 3.92 | $ 3.35 | 1,150,043 | $ 3.70 |
| $ 4.72 - $ 7.10 | 1,995,053 | 4.71 | 5.01 | 1,978,329 | 4.99 |
| $ 7.17 - $13.75 | 2,242,010 | 4.99 | 11.19 | 1,574,854 | 11.27 |
| $13.91 - $15.23 | 2,528,303 | 7.78 | 14.81 | 661,453 | 14.64 |
| $15.26 - $16.76 | 1,868,817 | 5.06 | 15.73 | 1,179,129 | 15.75 |
| $16.84 - $22.36 | 1,895,521 | 8.25 | 18.11 | 601,238 | 18.38 |
| $ 2.77 - $25.16 | 2,912,400 | 7.77 | 24.21 | 345,829 | 23.85 |
| $25.51 - $37.66 | 2,119,495 | 5.38 | 34.04 | 1,572,388 | 35.48 |
| $38.48 - $77.36 | 1,019,700 | 6.30 | 53.62 | 610,250 | 61.58 |
| $83.00 - $83.00 | 20,000 | 3.75 | 83.00 | 20,000 | 83.00 |
| $ 1.25 - $83.00 | 18,672,877 | 6.11 | 18.32 | 9,693,513 | 18.00 |

As of December 31, 2006, there was $79.9 million of total unrecognized stock-based compensation cost, net of expected forfeitures, related to non-vested share-based compensation arrangements granted under the stock option plans. That cost is expected to be recognized over a weighted-average period of 2.91 years. The total fair value of shares vested as of the years ended December 31, 2006, 2005 and 2004, was $183.6 million, $271.6 million and $193.5 million, respectively.

*Employee Stock Purchase Plans*

***1997 Employee Stock Purchase Plan***

In May 1997, the Company adopted the 1997 Employee Stock Purchase Plan, as amended, (the "1997 Purchase Plan"), and reserved 1,600,000 shares of Common Stock for issuance thereunder. This plan allowed for an annual increase equal to the lesser of: (i) the number of shares needed to restore the maximum aggregate number of shares which may be optioned and sold under the plan to 1,600,000 shares; (ii) 1% of the number of shares of Common Stock which are issued and outstanding on the last day of the preceding fiscal year; or (iii) a lesser number of shares determined by the Board of Directors. Employees generally were eligible to participate in the 1997 Purchase Plan if they had been employed by Rambus for more than 20 hours per week and more than five months in a fiscal year. This plan provided for offerings of four consecutive, overlapping six month offering periods, with a new offering period commencing on the first trading day on or after May 1 and November 1 of each year. Under this plan, employees were able to purchase stock at the lower of 85% of the fair market value on the first day of the 24 month offering period (the enrollment date), or the purchase date (the exercise date). Employees generally were not able to purchase more than the number of shares having a value greater than $25,000 in any calendar year, as measured at the beginning of the offering period. This plan was suspended effective July 19, 2006 due to the stock options investigation. For all participants electing to stay in the plan, contributions made through that date are being held and will be applied towards the first purchase date subsequent to the reinstatement of the plan. It is the Company's intention to reinstate this plan as soon as practicable after it is current on its filings with the Securities and Exchange Commission. No further offerings will be made under this plan and the plan will terminate effective with the October 31, 2007 purchase date in accordance with its governing documents.

Under the 1997 Purchase Plan, the Company issued 208,820 shares at an average price per share of $10.88 in fiscal 2006, 319,277 shares of Common Stock at an average price per share of $11.45 in fiscal 2005 and 543,129 shares at an

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average price per share of $6.55 in fiscal 2004. Due to the fact that the 1997 Purchase Plan was suspended effective July 19, 2006 no purchases were made subsequent to the most recent purchase date, April 30, 2006. As of December 31, 2006, there were 1,391,180 shares available for issuance under this Plan. The majority of these shares are not expected to be issued. Any shares not used in the October 31, 2007 purchase will expire according to the Plan's terms.

***2006 Employee Stock Purchase Plan***

In March 2006, the Company adopted the 2006 Employee Stock Purchase Plan, as amended (the "2006 Purchase Plan") and reserved 1,600,000 shares, subject to stockholder approval which was received on May 10, 2006. Employees generally will be eligible to participate in this plan if they are employed by Rambus for more than 20 hours per week and more than five months in a fiscal year. The 2006 Purchase Plan provides for six month offering periods, with a new offering period commencing on the first trading day on or after May 1 and November 1 of each year. Under this plan, employees may purchase stock at the lower of 85% of the beginning of the offering period (the enrollment date), or the end of each offering period (the exercise date). Employees generally may not purchase more than the number of shares having a value greater than $25,000 in any calendar year, as measured at the purchase date. There have been no offerings under this plan and as such there has been no shares issued under this plan. As of December 31, 2006, there were 1,600,000 shares available for issuance under this Plan. The first offering under this plan will be made as soon as practicable after the Company is current with its SEC filings and the underlying shares have been registered with the SEC.

As of December 31, 2006, there was $0.6 million of total unrecognized stock-based compensation cost related to share-based compensation arrangements granted under the ESPP. That cost is expected to be recognized over 10 months.

**9. Stockholders' Equity**

*Preferred and Common Stock*

In February 1997, Rambus established a Stockholder Rights Plan pursuant to which each holder of Rambus' Common Stock shall receive a right to purchase one-thousandth of a share of Series E Preferred Stock for $125 per right, subject to a number of conditions. Such rights are subject to adjustment in the event of a takeover or commencement of a tender offer not approved by the Board of Directors. In July 2000, the Rambus Board of Directors agreed to restate the exercise price to $600 per right in an Amended and Restated Preferred Shares Rights Agreement. In November 2002, the Rambus Board of Directors agreed to restate the exercise price to $60 per right in an Amended and Restated Preferred Shares Rights Agreement.

*Warrants*

In October 1998, Rambus' Board of Directors authorized an incentive program in the form of warrants for a total of up to 1,600,000 shares of Rambus Common Stock to be issued to various RDRAM licensees. The warrants, which were issued at the time certain targets were met, have an exercise price of $2.50 per share and a life of five years from the date of issuance. These warrants vest and become exercisable only upon the achievement of certain milestones by Intel relating to shipment volumes of RDRAM chipsets. Warrants exercisable for a total of 1,520,000 shares of our Common Stock had been issued under the program. As of December 31, 2006, no warrants were exercised as the defined milestones were not achieved, and all warrants have expired.

*Contingent Common Stock Equivalents and Options*

As of December 31, 2005, there were 1,000,000 contingent unvested Common Stock Equivalents, or CSEs, and 799,346 contingent unvested options, which vest upon the achievement of certain milestones by Intel relating to shipment volumes of RDRAM 850E chipsets. These CSEs were granted to Rambus' previous Chief Executive Officer (CEO) and President in 1999 and the options were granted to certain of Rambus' employees in 1999 and 2001. The CSEs were granted with a term of 10 years and the options were granted with an exercise price of $2.50 per share and a term of 10 years.

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It was previously expected that there would be a non-cash charge to Rambus' statement of operations, based on fair value of the CSEs and options, when the achievement of certain Intel milestones became probable. Intel has since phased out the 850E chipset and as a result the unvested CSEs and options will never vest. The impact of these CSEs and options has been excluded from the calculation of net income per share.

During the year ended December 31, 2006, 77,500 contingent unvested options were forfeited and all of the contingent unvested CSEs were forfeited unvested when the officers terminated their service. The forfeitures of the contingent unvested options are included in the forfeitures in the table in Note 8 "Employee Stock Option Plans" summarizing stock option activity.

As of December 31, 2006, there were no contingent unvested CSEs and 721,846 contingent unvested options. As noted above, none are expected to vest.

*Nonvested Equity Stock and Stock Units*

On January 10, 2005, Rambus granted 125,000 shares of nonvested equity stock to its CEO and President, Harold Hughes at an exercise price of $.001 per share. The nonvested equity stock was valued at fair market value at the date of grant, giving it a valuation of $2.7 million. Rambus recorded $2.7 million of stock-based compensation expense over the six month vesting period in the year ended December 31, 2005. There was no outstanding deferred stock-compensation balance as of December 31, 2005.

On February 1, 2006, Rambus entered into an amended and restated employment agreement with its then Senior Vice President and General Counsel, John Danforth. Pursuant to the terms of the Agreement, Mr. Danforth was granted 36,603 and 26,780 nonvested equity stock units on February 1, 2006 and May 2, 2006, respectively. The nonvested equity stock units were valued at fair market value at the date of grant, assuming no shares would be forfeited, giving each a valuation of approximately $1.0 million which will be attributed to expense over the 21 and 18 month vesting periods beginning February 1, 2006 and May 2, 2006, respectively. For the year ended December 31, 2006, Rambus recorded stock-based compensation of approximately $1.0 million. Unrecognized stock- based compensation cost related to these grants was approximately $1.0 million at December 31, 2006.

On April 11, 2006, Rambus granted its Chief Financial Officer, Satish Rishi, 40,000 shares of nonvested equity stock at an exercise price of $.001 per share. These shares are not transferable until vested and any unvested shares are subject to repurchase upon termination. The nonvested equity stock grant was valued at fair market value at the date of grant, assuming no shares would be forfeited, giving it a valuation of $1.6 million which will be attributed to expense over the four year vesting period beginning April 11, 2006. For the year ended December 31, 2006, Rambus recorded stock-based compensation of approximately $0.3 million related to this grant. Unrecognized stock-based compensation cost related to this grant was $1.3 million at December 31, 2006.

The following table reflects the activity related to nonvested equity stock and stock units for the year ended December 31, 2006:

| Nonvested Shares | Shares | Weighted-Average Grant-Date Fair Value |
|---|---|---|
| Nonvested at December 31, 2005 | — | $ — |
| Granted | 103,383 | $ 35.13 |
| Vested | (29,613) | $ 32.62 |
| Forfeited | — | $ — |
| Nonvested at December 31, 2006 | 73,770 | $ 36.14 |

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*Share Repurchase Program*

In October 2001, Rambus' Board of Directors approved a share repurchase program of its Common Stock, principally to reduce the dilutive effect of employee stock options. On January 23, 2006 Rambus' Board of Directors approved an authorization to repurchase up to an additional five million shares of its Common Stock, giving the Company a total authorization to purchase up to 19.0 million shares of its outstanding Common Stock over an undefined period of time. During the first quarter of fiscal 2006, Rambus repurchased 0.7 million shares at an average price per share of $29.94. As of December 31, 2006, Rambus had repurchased a cumulative total of 13.2 million shares of its Common Stock at an average price per share of $13.95 since the commencement of this program. This amount includes 4.1 million shares repurchased in connection with Rambus' $300.0 million zero coupon convertible senior subordinated note offering on February 1, 2005. As of December 31, 2006, there remained an outstanding authorization to repurchase 5.8 million shares of Rambus' outstanding Common Stock. In connection with the stock options investigation, repurchases of Common Stock under this program were suspended as of July 19, 2006. The Company will not repurchase additional shares until after it is current with its SEC filings.

Rambus records stock repurchases as a reduction to stockholders' equity. As prescribed by APB Opinion No. 6, "Status of Accounting Research Bulletins," Rambus records a portion of the purchase price of the repurchased shares as an increase to accumulated deficit when the cost of the shares repurchased exceeds the average original proceeds per share received from the issuance of Common Stock. In the fiscal year ended December 31, 2006 and 2005, the cumulative price of the shares repurchased exceeded the proceeds received from the issuance of the same number of shares. The excess of $20.2 and $59.8 million was recorded as an increase to accumulated deficit for the years ended December 31, 2006 and 2005, respectively.

**10. Benefit Plans**

Rambus has a 401(k) Profit Sharing Plan (the "401(k) Plan") qualified under Section 401(k) of the Internal Revenue Code of 1986. Each eligible employee may elect to contribute up to 60% of the employee's annual compensation to the 401(k) Plan, up to the Internal Revenue Service limit. Rambus, at the discretion of its Board of Directors, may match employee contributions to the 401(k) Plan. In conjunction with modifications to other employee benefits, effective January 1, 2006, the Company match provision under the 401(k) Plan was modified from 10% of the eligible employee's contribution to 50%, up to the first 6% of an eligible employee's qualified earnings. For the twelve months ended December 31, 2006 and 2005, Rambus made matching contributions totaling $1,117,000 and $260,000, respectively.

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## 11. Income Taxes

The provision for (benefit from) income taxes is comprised of:

| *(in thousands)* | Twelve Months Ended December 31, 2006 | 2005 As restated (1) | 2004 As restated (1) |
|---|---|---|---|
| Federal: | | | |
| Current | $ (858) | $ 8,849 | $ 5,095 |
| Deferred | (9,338) | (1,918) | (5,426) |
| State: | | | |
| Current | (218) | 1,922 | 2,925 |
| Deferred | (1,904) | (258) | (1,057) |
| Foreign: | | | |
| Current | 429 | 1,226 | 5,244 |
| | $(11,889) | $ 9,821 | $ 6,781 |

(1) See Note 3, "Restatement of Consolidated Financial Statements," of the Notes to Consolidated Financial Statements.

The differences between Rambus' effective tax rate and the U.S. federal statutory regular tax rate are:

| | Twelve Months Ended December 31, 2006 | 2005 As restated (1) | 2004 As restated (1) |
|---|---|---|---|
| Provision (benefit) at U.S. federal statutory rate | (35.0)% | 35.0% | 35.0% |
| Provision (benefit) at state statutory rate | (5.5)% | 5.7% | 9.9% |
| R&D credit | (8.8)% | (2.6)% | (10.3)% |
| Foreign tax credit | — % | — % | (14.0)% |
| Executive compensation | 6.3% | (17.7)% | 1.7% |
| Non-deductible stock compensation | (3.6)% | 3.0% | 1.4% |
| Other | 0.3% | 1.9% | (0.4)% |
| | (46.3)% | 25.3% | 23.3% |

(1) See Note 3, "Restatement of Consolidated Financial Statements," of the Notes to Consolidated Financial Statements.

While the Company does not expect any impact to the effective tax rate for U.S. non-qualified stock option or restricted stock expense due to the adoption of SFAS 123(R), the effective tax rate may be negatively impacted by foreign stock option expense and stock option expense related to executive officers that may not be deductible. Also, SFAS 123(R) requires that the tax benefit of stock option deductions relating to incentive stock options and ESPPs be recorded in the period of disqualifying disposition. This could result in significant fluctuations in the effective tax rate between accounting periods.